



MEMORANDUM

9 JULY 2004

TO: BOARD OF DIRECTORS

FROM: DAVID MERRITT

RE: EAGLE RIVER WATER SUPPLIES - WATER MARKETING PROPOSAL

In 1999, the River District secured its first supplies of marketable water from the Eagle River basin. These supplies consisted of 200 acre feet of Eagle Park Reservoir Water and 100 acre feet of Homestake Reservoir water. The Eagle Park Reservoir supplies cost the River District \$1,157,480 in cash, as well as development costs and the assignment of some of our Pando Feeder Canal rights. The Homestake supplies effectively cost us 160 acre feet of Wolford Mountain Reservoir yield, to be used to repay the Homestake Project through exchanges.

The costs of our share purchase, added to the value of the Pando Feeder Canal rights, and the capital cost recovery value of 160 acre feet of Wolford Mountain Reservoir water provided a total value of \$1,717,480, or approximately \$5,800/acre foot of yield to be made available in the Eagle River Basin. Thus, Eagle River water was marketed at the actual cost of the project, and it represented neither an impediment to marketing of the supplies nor a upset to the local water market.

By contrast, Wolford Mountain Reservoir supplies were marketed at a “political” rate, a rate which was similar to that being charged by USBR for supplies from either Green Mountain or Ruedi Reservoirs. We had essentially no West Slope capital involved in the construction of Wolford Mountain Reservoir, and therefore did not have a basis for assessing our capital cost recovery. The actual cost per acre foot of constructed yield of \$1600 was considered to be too high a cost at the time to charge West Slope customers, especially for a facility constructed as mitigation for transbasin diversions. Therefore, an initial capital cost recovery figure of \$750/acre foot was set.

We have now secured an additional 125 acre feet of Homestake Reservoir water, which will

be released in exchange for our making repayment exchanges back to Homestake Reservoir from Wolford when a mainstem call is on, but there is still water physically available at the Homestake Project. As our next increment of yield, it will only carry with it the cost of Wolford Mountain Reservoir replacement, a supply which is admittedly being marketed below replacement cost, or even its actual constructed, financial cost. If we were to reprice Wolford Mountain Reservoir water at the present time, using federal government cost allocation and cost recovery procedures, it would be close to \$2800/acre foot capital cost.

If our next increment of Eagle River supplies require the permitting, design and construction of a new project, it is highly likely that the costs will be in the \$8,000 to \$10,000/af range, and we will have the construction costs to support charging this amount. A market evaluation of the cost of the water is all over the board, as there are limited supplies in an expensive area, and many of the potential comparables are private and proprietary. It is likely that we will very quickly contract for all of the available additional yield, as local entities outside of the Upper Eagle Regional Water Authority are always short of water for future growth. We currently have 2 contract requests pending for 4.2 acre feet, and many others have asked about the availability.

STAFF RECOMMENDATION: Adjustment of the current Eagle River Supply rate of \$5800/acre foot by use of the Denver-Boulder-Greeley CPI from 1998-2003 would yield a Capital Recovery Rate of \$6700/acre foot. It is staff recommendation that we make 30 acre feet available at this rate, and then revisit the rate in light of our economic vision strategy.

The Proposed Pricing Schedule would be as follows:

EAGLE RIVER SUPPLY (7)		
	Annual Basis	Up-Front Option
M&I Wholesale (1)	\$513 per AF/year	\$6,700 per AF + \$51 per AF/year
Interim M&I Wholesale (1)	\$400 per AF/year	Not Available

The M&I Wholesale Annual Basis price (\$513/AF/Year) includes \$51 per year for project O&M, which will automatically escalate during the contract based on a CPI index (6), and a fixed \$462 per year development fee. The development fee will not increase during the contract term but can be modified for future contracts from time to time by the Board's revision of this Water Marketing Policy.